BUSINESS IN BRIEF

The business recovery is proceeding in good fashion. Industrial production is almost back to its prerecession peak. Personal income is running 2½% ahead of a year earlier.

A large part of the rapid turn-about in production is explained by the end of inventory liquidation. A second factor is that Federal, state and local government spending has increased at a $2 billion annual rate each quarter during the past year. In addition, moderate increases have been registered by retail sales and housing in recent months.

•

What forces could operate to keep the recovery moving? Trends in several basic areas of the economy appear favorable:

¶ **Business investment in new plant and equipment** should turn upward in the third quarter, according to a recent SEC-Commerce survey of business plans.

¶ **Housing** appears to be headed for a moderate rise, in part because of the artificial stimulus of the new housing program.

¶ **Government expenditures** could continue to rise at a $2 billion per quarter rate.

¶ **Inventory accumulation** could resume, adding to the rise in orders and production.

Such developments could support a continued increase in production and employment in the months ahead. In the process, additional income would be generated, providing the basis for an increase in retail sales.

A good rise in consumer expenditures for goods, including durable goods, is an essential ingredient in a sustained and vigorous recovery. Thus, retail sales must pick up from recent levels if the momentum established in the initial stage of the general business recovery is to carry on.

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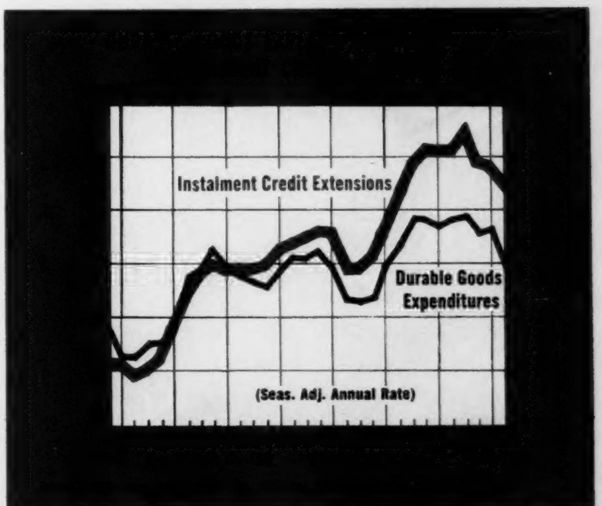
Retail sales generally track closely with personal income after taxes. From 1955 through 1960, the ratio of sales to income varied between 62% and 65%. During the past year, sales have dipped 1½% while income is up 2½%. Thus, the ratio of retail sales to income is down to 60%.

Part of the lag reflects the steady upward trend in expenditures for services (rent, household operation, medical care, recreation, etc.). In addition, consumers have been reducing their instalment debts. Extensions of new credit dropped to an annual rate of $46.6 billion in April, $7.4 billion below the year-earlier rate. Meantime, repayments rose to an annual rate of $48 billion.

All of this has contributed to a decline in sales of durable goods — autos, appliances, furniture and other hard goods. This has been the major lagging area in retail markets — durables sales have been running at only 11% of incomes versus 11.7% in 1958 and about 13% in recent years of good business.

With incomes rising, however, consumers are now in a position to support an increase in instalment debt. Such a pattern is typical in a recovery period — new credit extensions rose by $8¼ billion in 1959 and $8 billion in 1955. A similar increase could take place in the year ahead without lifting repayments out of the range of 13% of income after taxes which has characterized recent years.

The fact that consumers could take on more debt is no guarantee of a rapid rise in durables sales. Consumers are well-stocked with such goods, so the emphasis is on attractive products and good values. Thus, hard and imaginative marketing efforts will be required to generate a good increase in sales of consumer durables, and thereby provide firm support for a continued advance in general business activity.



A NEW LOOK AT THE FINANCIAL SYSTEM

The Report of the Commission on Money and Credit

The basic framework of the American financial system is adequate for meeting the challenges of the '60's. That, after three years of intensive study and research, emerges as the collective judgment of the Commission on Money and Credit. The following brief review of the Report sets forth some of the Commission's major views and opinions.

It should be noted at the outset that the Report's 105 specific recommendations cover a broad range of problems, many of which are highly technical. Thus, as the Preface states, no member of the Commission endorsed every specific proposal.

The Commission's recommendations would for the most part be evolutionary in character and in line with the stated objective of improving the effective functioning of the domestic economy. In addition, it urged strengthening of the international payments mechanism to assure adequate support for economic growth and expanding trade among the nations of the free world.

The Three Goals

Unlike some earlier inquiries of this type, the genesis of the Commission on Money and Credit did not lie in any single dramatic incident, revealing a basic flaw in our financial structure. Instead, it set for itself a task in many ways more complex, and certainly more diffuse. This was to explore the ways and means by which our money and credit mechanism could better serve the effort to achieve—simultaneously—our national economic goals of full employment, price stability, and growth. Clearly, the postwar economy has seen recurrent conflicts between these goals. And monetary and fiscal policies aimed primarily at one objective have frequently been blamed for shortcomings in another direction.

In the end, the Commission rejected any inference that financial reform alone, however sweeping, could fully reconcile these conflicts. There are too many unresolved issues of labor markets and industrial structure, tax reform and Government expenditure programs, to permit that conclusion. But, the Report does argue that more effective monetary, credit, and fiscal policies – within the basic framework of a competitive market economy and existing control mechanisms – must be essential ingredients in any overall program to meet our national goals.

Organizational Changes

Because of the wide and varied subject matter covered by the Report, as well as its evolutionary tone, no single Commission recommendation stands out as a natural focus of attention. But, there is one pervasive theme running through the Report: the need as the Commission saw it for more timely, better-coordinated action with respect to all Government economic policies.

Here, the Commission addressed itself to the highly sensitive subject of the powers of the President vis-a-vis the Congress and other Government agencies. It concluded, finally, that only in the office of the President could be found the combination of responsibility, resources, and leadership essential for prompt and effective action. Consequently, the Commission would tip the balance of power within Government in that direction. In key recommendations, it would:

- Permit the President, within limits and subject to Congressional review, to raise or lower the first bracket personal income tax rate as a means of countering the business cycle.
- Make the term of the Chairman of the Federal Reserve Board coterminous with that of the President.
- Broaden the powers of the Treasury and the President with respect to the financing of Government lending agencies.

The Commission would also center powers over open market operations and the discount rate more firmly in the hands of the Federal Reserve Board in Washington. Thus, the directors and presidents of the twelve regional Reserve banks would be relegated largely to operational and advisory functions.

Federal Reserve Independence

These suggestions understandably have aroused debate and concern. In seeking timely, coordinated action, the risks inherent in eliminating existing checks to the hasty and arbitrary exercise of power can not safely be overlooked. Moreover, in a complex society there are real advantages in the present decentralized system, which facilitates contacts between the decision-makers and affected parties.

The Commission did, in fact, recognize the value of retaining for the Federal Reserve a position of considerable independence – a position from which it can strongly advance the legitimate claims of monetary stability and resist encroachment by the Treasury. Thus, it urged that the Federal Reserve Board be reduced in size from 7 to 5 and that more exacting, positive qualifications be stressed – both in the interest of attracting men of stature. And while terms of office would be somewhat reduced, they would still run for 10 years, extending beyond the tenure of any one President.

These recommendations take on added significance in the context of the Commission's wholehearted endorsement of discretionary monetary and fiscal policies. The Report adheres to the now widely accepted view that both the Federal budgetary position and the availability of bank credit should be flexibly shifted in response to the current economic developments. Inflexible

rules, such as a balanced budget under all circumstances and a fixed rate of growth in the money supply, are rejected as a sound basis for effective policy. Inevitably, this puts a very high premium on informed, responsible judgment by those in office.

Private Financial Institutions

In another area, the regulation of private financial institutions, the Commission's prime concern was to promote individual initiative and enterprise within the framework of competitive markets – less Government intervention rather than more.

The key proposal is to permit commercial banks, savings banks, and savings and loans associations more latitude in their investment policies: greater freedom to meet new demands, to bear risk, and to compete with each other over a wider area. To the same end, restrictions on branching of these institutions, within broad "trading areas", would be liberalized, and reserve requirements against time deposits and savings-type accounts eliminated. Arbitrary interest rate ceilings – on commercial bank time and savings deposits, on Government insured or guaranteed mortgages, and on Government bonds themselves – would be eliminated or liberalized.

However, in sharp contrast to these clearcut recommendations aimed at encouraging vigorous competition and facilitating the mobility of capital, the Commission surprisingly failed to reach a consensus on selective credit controls. The Report appeared to give little or no recognition to the fact that such controls, applied to consumer durables, housing, and business investment, would distort the very market forces that other recommendations are designed to free.

The International Financial Mechanism

Against the background of developments of recent years in international finance, with first the dollar and now sterling under pressure, the Commission warned that moves to strengthen the international payments mechanism are needed. It recognized that for the United States, success in achieving a viable balance in its basic international accounts is a matter of first priority – and that neither devaluation nor exchange controls are in any way consistent with our world position, which depends importantly on the role of the dollar as a key currency.

But the Commission was also concerned that, in a world of convertible currencies, massive flows of short-term capital originating in speculative influences or in differentials in interest rates between countries could quickly and unpredictably undermine confidence and bring an exchange crisis. The Report emphasized that this is a multi-national problem.

Again the Commission rejected more radical suggestions for reform – in this case proposals for a form of super world central bank. But it did support moves to increase the resources of the International Monetary Fund, and particularly proposals to formalize the right of the Fund to borrow currencies of countries in payments surplus, relending them to countries losing short-term funds. This is consistent with the so-called Bernstein proposals, now under active discussion.

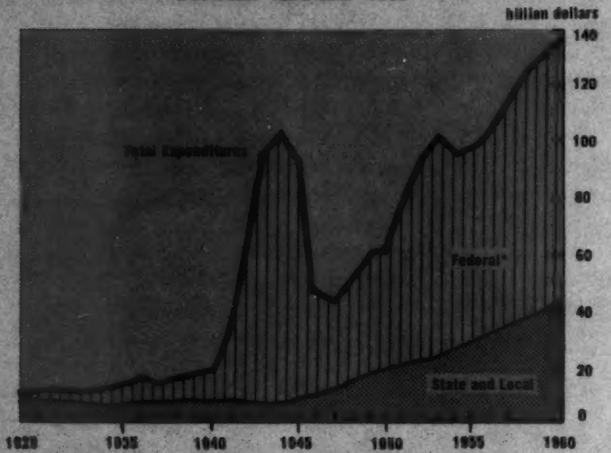
An Appraisal

A report of this sort, with dozens of suggestions for change affecting nearly all financial institutions as well as the distribution of Government powers, is bound to be controversial. Few would accept the recommendations in their entirety – not even all the individuals participating on the Commission. And it is clear that differences in background and interest among Commissioners led to some unevenness and inconsistencies.

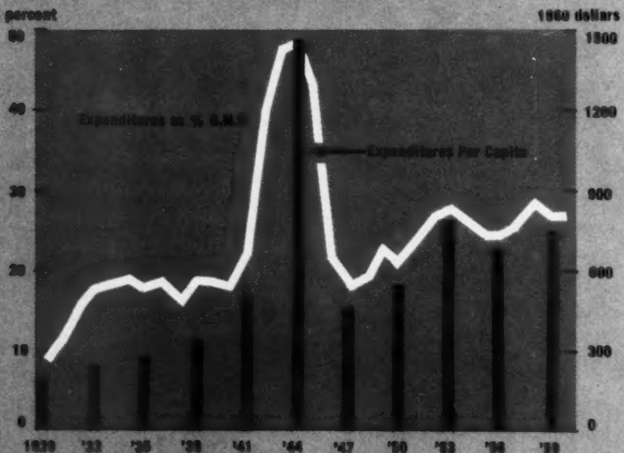
But for all of that, this is a significant document. It is encouraging that no really fundamental defects were found in the internal financial structure of the U. S. It is noteworthy that so broadly representative a group was in substantial agreement on many basic issues of economic policy. And the Report does single out a number of specific areas in which performance of both Government and private institutions could be improved. It deserves a close reading in the business and financial community.

THE COMMISSION ON MONEY AND CREDIT WAS A BROADLY REPRESENTATIVE GROUP OF 27 MEN DRAWN FROM THE BUSINESS WORLD, THE LABOR MOVEMENT AND THE PROFESSIONS. IT INCLUDED MEN WITH LONG EXPERIENCE IN GOVERNMENT, BUT HAD NO OFFICIAL SANCTION. THE WORK WAS ASSISTED BY AN ADVISORY BOARD AND STAFF OF WELL-KNOWN SCHOLARS. PICTURED IS THE COMMISSION PRESENTING ITS REPORT TO PRESIDENT KENNEDY.

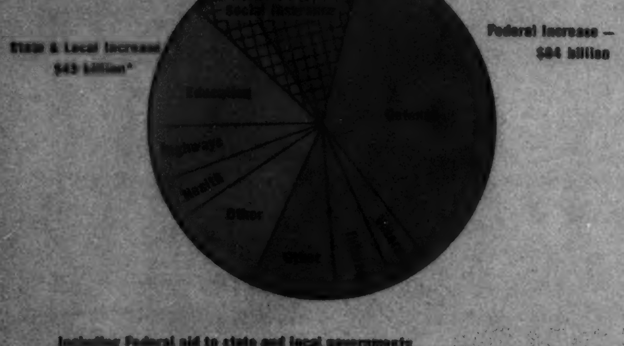
GOVERNMENT SPENDING ROSE MORE THAN 12 TIMES BETWEEN 1929 AND 1960



OUTLAYS EXPANDED MORE RAPIDLY THAN PRODUCTION AND POPULATION



DEFENSE AND SOCIAL INSURANCE COUNT FOR MORE THAN HALF THE 1929-60 INCREASE



Including Federal aid to state and local governments

Data: Department of Commerce

THE CHANGING ROLE OF GO

Should government assume an even larger role in our economy? This is one of the major questions facing Americans today. Congress is acting on the budget requests of a new Administration. If all, or a major part, of the proposed new programs are enacted, Federal spending would be lifted to new high ground. At the same time, pressures for further increases in state and local government spending remain strong.

This comes at a time when government has already assumed a most significant role in our economic affairs.

- If the armed services are included, one out of six workers is on a government payroll.
- Total expenditures of Federal, state and local governments came to \$137 billion last year – more than \$760 for every man, woman and child in the U. S.
- Government bought 20% of all goods and services produced last year. In addition, transfer payments amounted to 7% of total national production.

The expanding role of government has been due to two essentially separate forces. *First*, a growing population and improving living standards have led to an increasing demand for many of the basic services of government. *Second*, government has grown because its functions have broadened.

Break With the Past

Until the 1930's, government held a relatively minor role in economic life. To be sure, wars brought a sudden upsurge in spending but the return of peace saw a decline. Thus, government expenditures were 7% of GNP in 1900. Despite a ten-fold expansion, they averaged 10% of GNP in the 1920's. Then two developments led to a significant increase in government's role – the great depression of the 1930's and war, hot and cold, of the 1940's and 1950's.

During the depression, government's share of GNP nearly doubled – to 19%. Of long-run importance was the growth in what are termed transfer payments – chiefly payments by the Federal government for social security, the farm program and other subsidies, veterans' benefits and interest. Such payments do not add directly to government purchases of goods and services – they shift purchasing power from one group in the economy to another. Transfer payments rose from 1.6% of GNP in 1929 to 5% in 1935 and more than 7% in 1960. They account for 28% of the increase in government's share of GNP in the past 30 years.

The second major break with the past resulted from the international tensions of the postwar era. Defense expenditures ran to \$45.5 billion last year, 9% of GNP. This has been a principal factor in boosting government expenditures to 27% of GNP in post-Korean years.

Meanwhile, dollar outlays for the traditional functions of government – e.g., education, highways and general administration – have also expanded sharply. As meas-

GOVERNMENT EXPENDITURES

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Meaning For The Future

What does this review of past trends signify for the future? *First,* there is a built-in tendency for certain types of government expenditures to rise. The cost of providing schools, roads, parks and other public facilities is linked to a growing population.

A *second* point is that state and local government expenditures for goods and services are almost as large as those of the Federal government. The biggest growth in recent years has been at the state and local level. This raises a series of questions for the future. Can state and local governments meet the growing demands for their services from existing sources of revenue? Should the trend towards increased Federal financial support of, or direct Federal participation in, activities traditionally carried on by state and local governments be allowed to continue?

A *third* conclusion is that, unless recent trends are reversed, it will be difficult to hold government spending in line with GNP even if the economy achieves a good rate of growth. With a 3½% growth rate, government expenditures could rise some $24 billion between 1960 and 1965 without altering the 27% share of output that has gone to government in recent years. A continued rise in state and local spending at the rate of recent years would result in an increase of $13 billion from 1960 to 1965. The Administration's program would, if fully approved, lift Federal spending $5-6 billion in the *one* year directly ahead.

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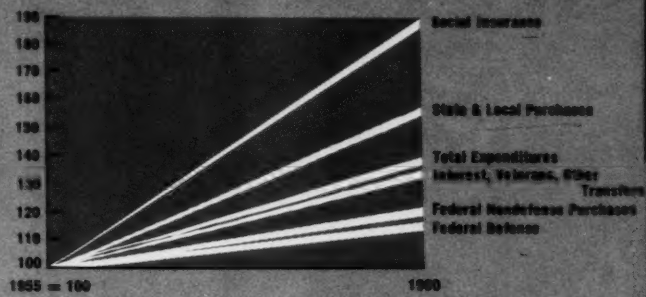
In view of the heavy burden the present tax system places on saving and investment, the former course would appear to involve a heavy risk that the growth of the private economy may well be held back. On the other hand, a positive program of tax reform might so encourage economic growth as to make it possible to support needed government programs with a stable or declining share of government in total national output.

RECENT TRENDS

IN THE PAST FEW YEARS STATE AND LOCAL PURCHASES AND SOCIAL INSURANCE HAVE RISEN MOST



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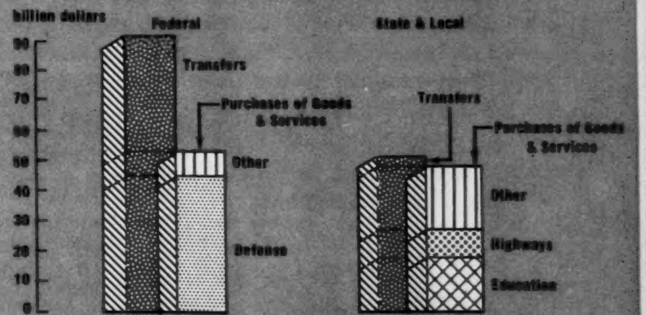

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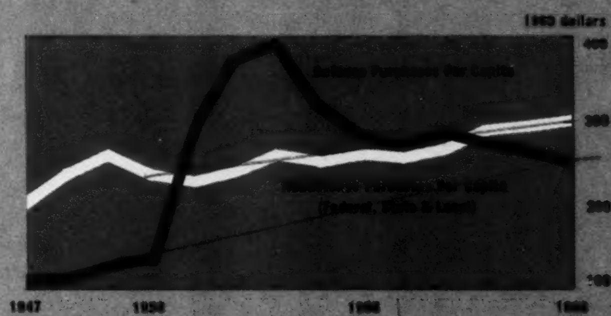

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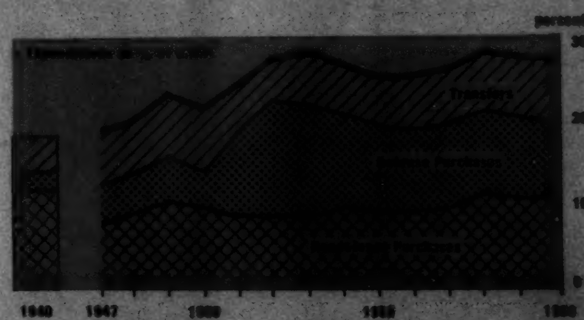

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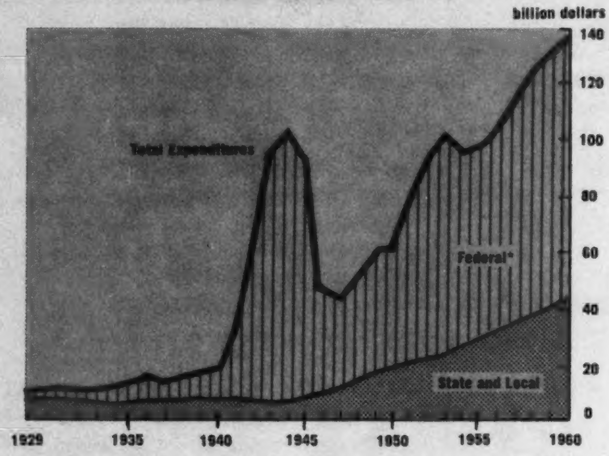

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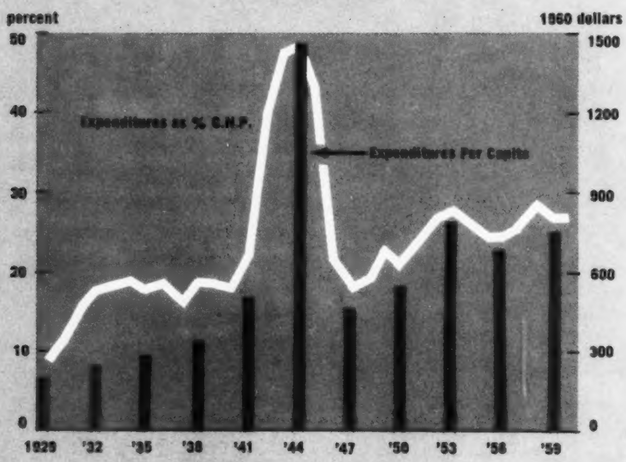

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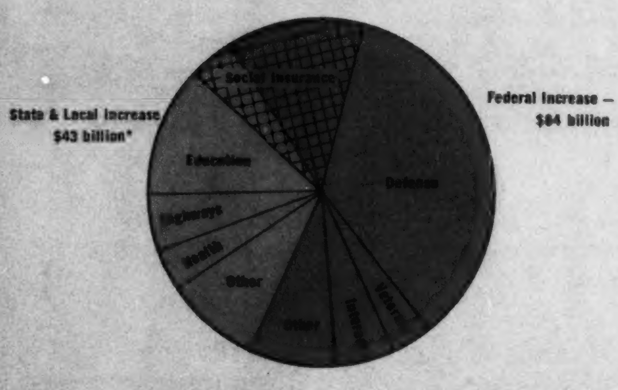

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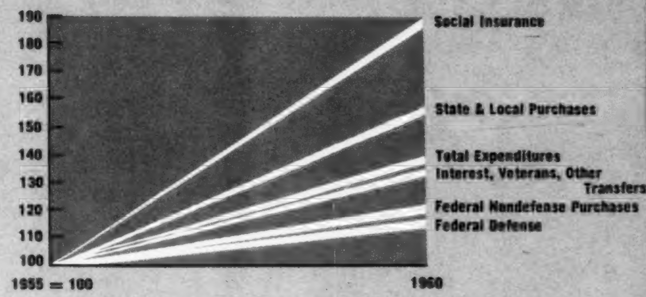

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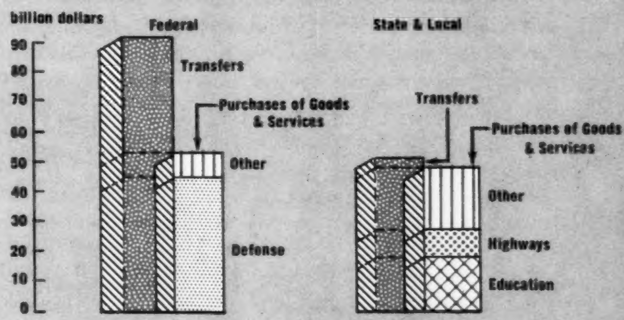

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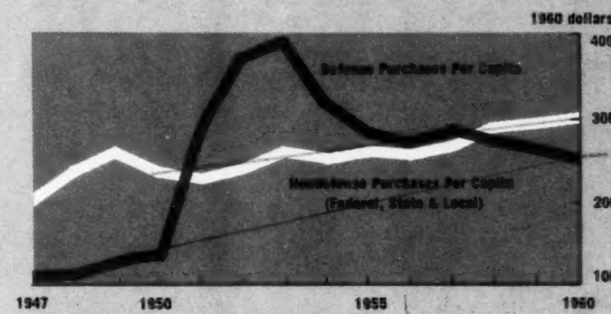

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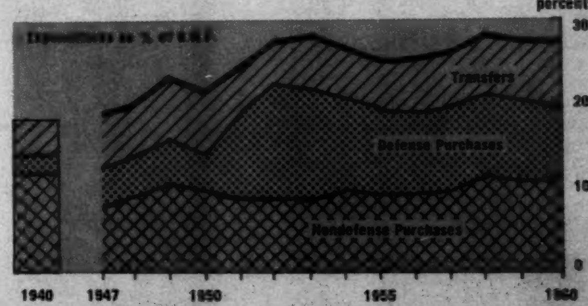


Data: Department of Commerce

LEISURE ACTIVITIES

Americans are devoting more time and money to leisure activities than ever before. Estimates of the size of the leisure market vary depending on the breadth of the definition. But conservative figures total $45 billion, and some estimates are more than half again as large.

No matter what definition is used, however, two things are clear. First, spending connected with leisure activity has grown steadily – with some evidence that it has taken a rising share of consumer income in the past five years. Second, the composition of the leisure market has shown striking change as Americans plan their time in an increasingly purposeful way.

Discretionary Time Plus Discretionary Income

Behind the rise in leisure markets has been the substantial increase in the amounts of time and income which are available to be spent at the discretion of the individual consumer. As for time:

- Employees will take a total of 50 million vacation-weeks over the summer months, and another 32 million weeks during the rest of the year in addition to some 467 million holidays.
- Even during ordinary weeks, one-quarter of the average person's time is open to choice of activity.
- Families have more free time together because conveniences of modern living have shortened the time needed for household chores.

To go with this discretionary time, Americans have more discretionary income. The total has risen nearly 60% in the past decade. In 1960, people received $123 billion over and above the income required for essential food, clothing, shelter, medical care and fixed commitments. Thus, nearly one-third of all after-tax consumer income – an average of $682 per person – was available for the consumer to spend as he wished.

Consumers are spending one-third of this discretionary income – or 12% of their total income – on leisure activities. So the market for goods and services connected with recreation has doubled in the past ten years.

Wanderlust

The largest single item in the leisure budget is travel. This year some $12 billion, or 3¢ out of every consumer dollar, will go for trips in the U. S. About $3½ billion of this is for transportation. The rest is for lodging, vacation homes, meals and incidental expenses. (Estimates which include such things as vacation clothing, sports equipment and entertainment expenses run to over $20 billion.)

Spending on travel within the U. S. is twice what it was a decade ago. This year, domestic travel seems set to accelerate its growth rate, with bookings at vacation spots reported to be up 10-15% over 1960.

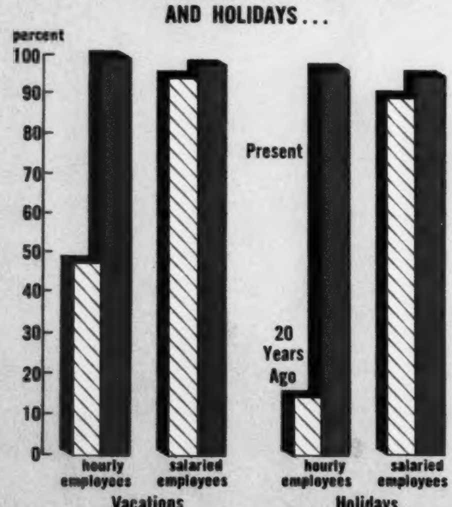
Another $2½ billion goes for trips abroad. Such travel has tripled in the past decade, but this year its growth seems to have tapered off. Nevertheless, record numbers are planning trips to Pacific Islands and the Far East. And many people are making second trips to Europe.

The New Active Leisure

Aside from travel, what are people doing with their leisure? The figures show that some marked changes are underway in the pattern of recreation in the U. S. Forms of recreation involving active participation and the development of knowledge or skill are more popular. People spend relatively less time as spectators.

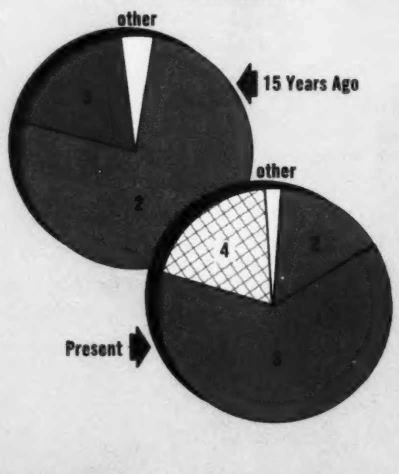
Movie admissions are still below their early postwar level, and admissions to spectator sports have increased only one-fourth as rapidly as total recreation outlays. As for television, replacement needs, color and portable models have supported the market, but sales in 1960 were 22% below the 1955 peak.

ALMOST ALL EMPLOYERS GRANT VACATIONS AND HOLIDAYS...



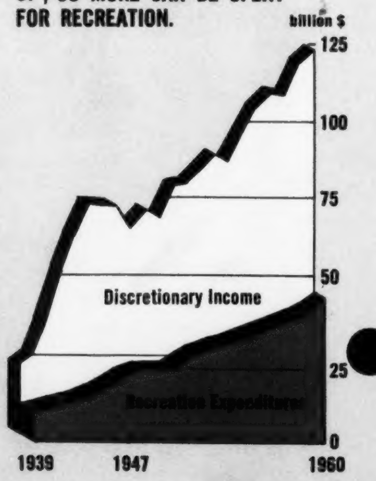
% of Companies Granting Paid

AND THE MAXIMUM AMOUNT OF TIME-OFF IS INCREASING...



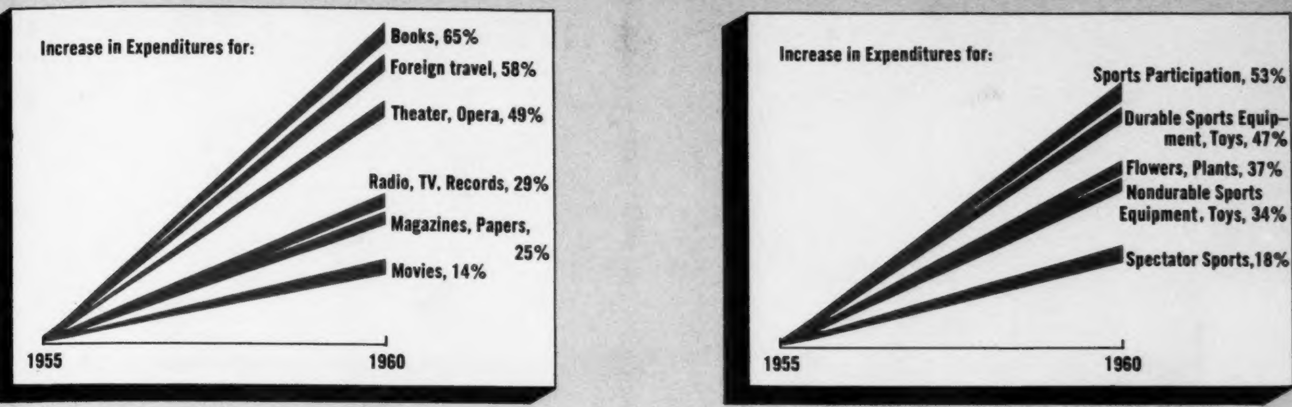
Maximum Weeks Vacation Granted by Companies

MEANWHILE DISCRETIONARY INCOME IS UP, SO MORE CAN BE SPENT FOR RECREATION.



Data: National Industrial Conference Board, Fortune Magazine

RECREATION INVOLVING ACTIVE PARTICIPATION AND BROADENING KNOWLEDGE GAINED MOST IN POPULARITY



Data: Department of Commerce

In striking contrast are trends in the rapid growth areas of leisure. Interest in cultural activities, for example, is booming all across the country.

• Spending for books has risen more than any other type of recreation expenditure. It is up two-thirds from 1955, and has risen one and a half times over the whole postwar period to a total of $1½ billion. What's more, the accelerating growth of book sales affected all kinds of books: hardbound and paperback, juveniles, fiction, reference works and serious nonfiction on many subjects.

• Ticket sales for the theater and opera rose 50% over the past five years, 115% since 1946. Theater receipts in 1960 were more than one-third above admissions to all spectator sports.

• The U. S. has well over half the world's professional symphony orchestras, and the number of amateur musicians has reached 32 million – up 40% in ten years. In addition, the number interested in art – as measured by museum attendance – is over 40 million. Visitors to the Metropolitan Museum of Art in New York City on a single Sunday would twice fill the Madison Square Garden sports arena.

Likewise, active participation in sports has risen to all-time records.

• Boating attracts 40 million Americans. The 8 million boats now in use is double the 1950 number. And swimmers not only crowd the beaches, but are rapidly building pools in their own backyards.

• Camping is also gaining adherents. About 25 million overnight visits, and ten times as many day visits, were made to national and state parks last year. Some went to fish or hunt (26 and 18 million licenses respectively), but many just enjoyed the outdoors.

• Among other sports, bowling has the most participants (22 million) and is gaining most rapidly. Next come baseball (16 million players), basketball (11 million), tennis (6½ million), golf (5½ million) and another fast-growing sport, archery (5 million).

What has sparked this widespread interest in active recreation? Apparently the pattern of leisure has shifted in response to other trends in the U. S.

Employment has decreased on the farm, and, to some extent, in the factory while the more sedentary professional, office and service jobs have increased. Thus, more people have both the energy and the need for physical exercise during leisure hours. The move to the suburbs has also encouraged interest in sports.

In fact, the most clearly defined pattern in recreation spending is according to residence and occupation. Farmers devote the largest share of their recreation budget to TV. City people spend half again more than average on theater and other admissions. Suburbanites spend twice the average on sports equipment.

As for the growing interest in culture, the rising average level of education appears to be the prime influence. But improved methods of communication have broadened horizons and also made many forms of recreation more enjoyable (hi-fi amplification, for example).

So Americans, while devoting more time and money to leisure, are broadening and deepening their interests. For them, leisure is not idleness. Rather, increasing attention is paid to Benjamin Franklin's adage: "Do not squander time, for that is the stuff life is made of."